How Digitization is Driving Bank M&A and Improving Performance

During the pandemic banks had to experiment and take risks that under normal circumstances they would never have considered in order to keep operations up and running, such as rapidly deploying a range of digital tools. To the surprise of many, employees and customers enthusiastically embraced these digital offerings, accelerating technology maturity and adoption by several years. Banks suddenly had hard evidence that digitizing operations could bring enormous efficiency and scale advantages while actually serving customers with greater personalization.

These insights, in addition to capitalization changes, are contributing to a new wave of M&A activity in the U.S. as banks look to scale up quickly as the economy emerges from the pandemic. There were more than 50 deals in the first four months of 2021 with a total value of almost $25 billion, up from $6.5 billion in the same period in 2020, according to an S&P Global report.

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But there is a big difference between the way banks must manage these integrations today and how they have in the past. Previously, banks had the luxury of tapping the brakes on current operations as they shifted their focus to the integration. But that is no longer possible. The world is moving too fast. Bankers need agility—the ability to change or modify capabilities quickly—to keep all their operations humming, even accelerating, as they also pursue a rapid, effective integration that captures all the anticipated value of the deal. For example, the CARES Act, which introduced small business loan funds during the pandemic, forced banks to implement a solution to support the loan program in just 90 days.

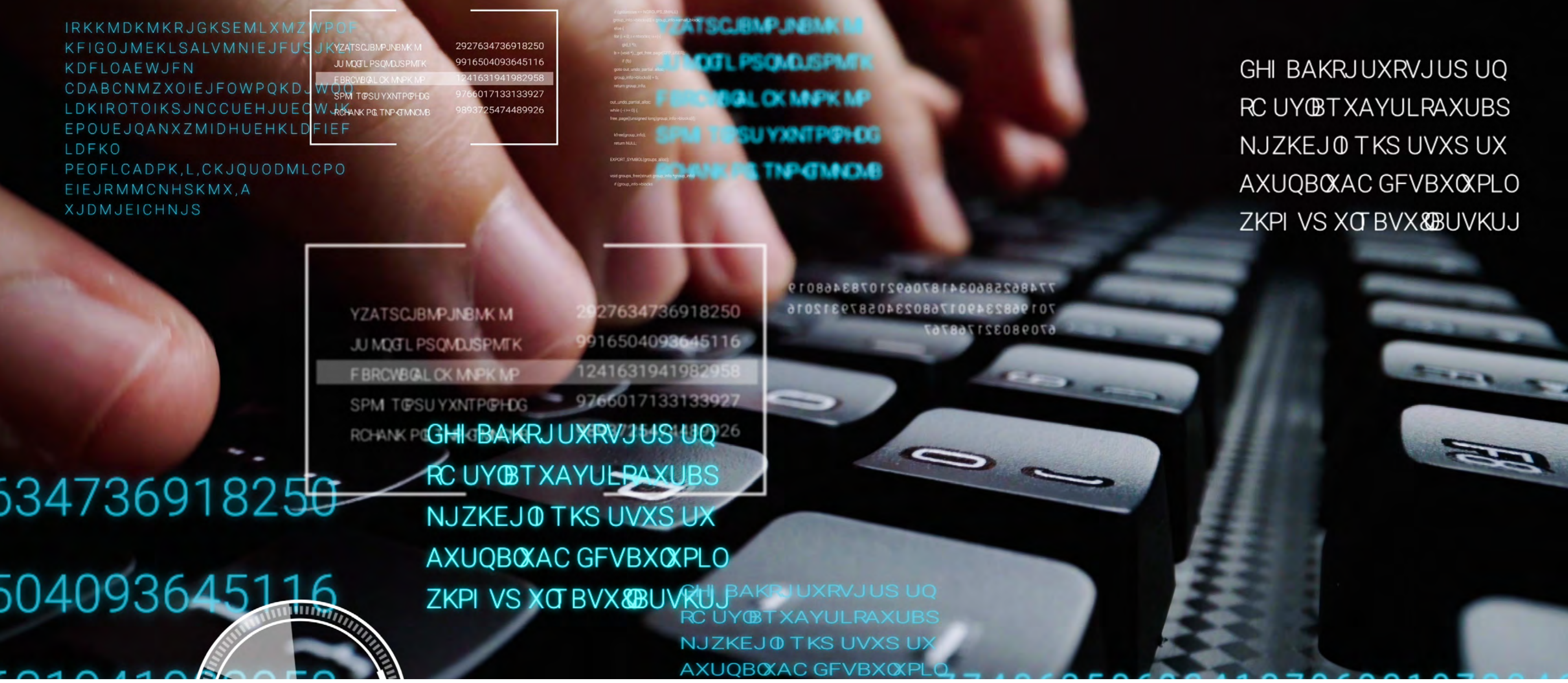
Tackling Common Integration and Digitization Challenges

In today's banking environment, there are generally two M&A scenarios. One involves two large banks joining forces. These companies have aged and complicated technology environments that they need to unify as they digitize operations. They also have enormous workforces that need to communicate easily and effectively from Day One. The second scenario involves two smaller institutions that are looking to build themselves up and use digitization as an enabler to improve scale and compete with big banks. They want a technology environment capable of delivering all the big bank tools to their employees and customers, but they want to retain the personalized approach to banking to which their workers and customers are accustomed.

While the banks in these two M&A scenarios are solving for slightly different digitization issues, the core challenge remains the same: integrating while continuing to run current operations and pursing strategic priorities. "Leaders often get stuck in an 'either-or' dynamic," said Paula O'Reilly, a Managing Director at Accenture. "They struggle to integrate and, at the same time, pursue competitive priorities like payments modernization, digital transformation or cloud migration." To break free of that dynamic, she recommends that bank integration teams think through three fundamental topics as soon as possible.

Resource Decisions. The new bank will have two of everything necessary to operate—two workforces, sets of processes, technology stacks, customer bases and product sets. Will the new bank use the acquirer's resources by default? Or will it use a best-of-breed approach to strategically select the best elements from each of the banks? Too often, these discussions remain at a 50,000-foot view, rather than at the detailed level that's essential for implementation.

Business Continuity. Is the new bank ready to absorb the surge in demand that's coming its way and maintain business continuity? Imagine that the new bank's core systems can't handle volume increases, or that the mobile banking app is much harder to use than it was before. The bank could end up frustrating both employees and customers.



Talent Management. Leaders need to know what skills the workforce has across both banks, especially in modern technologies such as the cloud, human and machine collaboration, and agile ways of working. It's also vital to understand and manage workforce dynamics. When employees are uncertain or scared, some may leave, taking critical skills with them. The sooner that banks can put a talent plan in place, the better.

After thinking through these issues, bank leaders need to put the right tools in place so employees can take appropriate action, thus enabling a faster, better integration. To this end, some banks have turned to ServiceNow's platform solution that connects processes, systems, and people across the front, middle, and back offices to accelerate a bank's digital transformation. The software vendor offers several agile platforms that span multiple domains (core operations, HR, risk, security, etc.) that bank employees can access through a portal.

"Accenture has a strong relationship and a great track record with ServiceNow because its solution helps companies accomplish a faster, better integration and keeps customers and employees happy," O'Reilly said. "Plus, its solution helps avoid some of the common pitfalls during the M&A process."

Implementing Platforms for Visibility and Communication

Gregory Kanevski, Global Head of Banking for ServiceNow, described the M&A challenges as fundamentally about people, processes, and technology. For each of these, ServiceNow has platforms that improve visibility; this visibility helps frame potential issues, enhances resiliency and promotes better collaboration during the transition.

On the technology front, the ITx platform brings together unconnected data and powers IT workflows across operations management, asset management, business management, DevOps, and Security & Risk. This foundational platform lets the bank map its technology environment and facilitates integration. Essentially, the IT platforms allow the bank to

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move from a 50,000-foot-view of the integration to a ground-level view so management can better understand and manage implementation priorities. It is essential for business continuity and to meet regulatory scrutiny.

For example, when the M&A involves two smaller organizations, the ITx platform offers a way to manage the immediate technology challenges of the integration, and also a platform that can grow with the bank over time. The bank can invest now in the ITx platform and add elements in the future when the bank is ready to implement them, such as a loan or payments program. These deployments take less than 12 weeks and can be further modified as needed without compromising resiliency. This flexibility and extensibility are made possible by a low-code development platform and an industry-specific data model.

In the case of an M&A involving two large, complicated technology environments, the ITx platform gives bank employees greater visibility into operations to improve efficiencies and cost savings. They can identify and eliminate redundant systems, map devices across both organizations and determine if those devices need updating. Moreover, by giving employees a common platform to interact, the new bank helps to facilitate the cultural merger of the two organizations. In some cases, deployments have been so profound, it has led to organizational consolidation, further increasing savings and assuring consistency.

To serve employees better, ServiceNow also offers an HR service delivery platform called ServiceNow HR Service Management. During a merger, employees from both banks can visit the platform to better understand the status of the integration, their new roles and responsibilities, and access training. A poor employee service experience is costly in more ways than one. Clearly the HR team is not using its own resources effectively, but the organization is also less likely to retain high performers with high expectations, which doesn’t bode well for the organization. Retaining the best talent through the integration is often fundamental to realizing the deal’s anticipated value.

For example, during an integration, banks often need to transition employees to new locations, into new roles, or even out of the company. This complex process falls on the shoulders of HR teams, which must cooordinate their efforts with multiple departments—facilities, IT, finance, legal, and even compliance—often across multiple countries. With ServiceNow Enterprise Onboarding and Transitions (which is just one module in the HR platform), HR can more easily manage employee lifecycle events across multiple departments on a single platform. HR teams can onboard employees and provide building access, network credentials, and a comfortable chair—or reverse the process in real time with a simple click. The financial benefits can be significant, according to a Forrester Total

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Impact Study commissioned by ServiceNow. As part of the study, Forrester conducted a three-year financial impact analysis of a $4 billion revenue company that used the HR platform. It calculated a 30% increase in HR efficiency and a 400% ROI.

One of ServiceNow’s newest platforms is its industry-specific Financial Services Offering (FSO). It’s designed to help financial institutions overcome operational challenges, including scale, resiliency, and consistency. In the context of an M&A, the FSO helps to ensure a reliable customer experience for individual consumers, small businesses and corporate clients. That’s tough in today’s environment where customer expectations are being set outside the bank by digital native companies such as Amazon and Uber. They demand greater flexibility in how, when, and where they communicate with financial institutions. They want quick answers to their questions, and they want issues resolved immediately.

Customers have little patience for banks that can’t deliver on these expectations and don’t care if the bank is going through an integration or not. Here FSO can help. A recent IDC study of banks using the FSO platform found significant customer service benefits. Study participants reported being able to handle more incidents (27%), reduce the number of help desk tickets (39% fewer), and resolve both incident and help desk requests in less time (38% and 32% faster, respectively).

Bank integrations are inherently challenging and create uncertainty. Leaders are on the hook for synergies and cost savings and revenue growth goals. Employees want to know how ways of working and career paths will evolve. Customers wonder if service and their experiences will suffer. On top these challenges, bankers need to keep all their operations running smoothly, even accelerating, as they pursue a rapid, effective integration that captures all the anticipated value of the deal. It’s no easy task, but by leveraging digital platforms during the integration process, banks can achieve enormous efficiency and scale advantages while serving customers better and faster.

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